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SUBJECT: NETHERLANDS: DUTCH GOVERNMENT TAKES STEPS TO SHORE
UP FINANCIAL SECTOR

REF: A. THE HAGUE 840
¶B. THE HAGUE 885

THE HAGUE 00000910 001.2 OF 005

¶1. (SBU) Summary: The Government of the Netherlands (GONL) instituted a series of preemptive measures in October to protect the vulnerable Dutch financial sector from the external shocks of the global financial crisis. Following the United Kingdom,s lead, the GONL announced a EUR 20 billion (USD 25 billion) emergency fund to provide liquidity to financial institutions in need. Dutch banking and insurance giant ING was the first Dutch company to take advantage of the fund October 19 when the GONL announced an injection of EUR 10 billion (USD 12.5 billion) into ING as buffer capital. Insurance and pension fund giant AEGON was the second, taking EUR 3 billion (USD 3.75 billion) from the GONL on October 28. Additional GONL actions include raising the guarantee on individual and small business bank deposits from EUR 38,000 (USD 47,500) to EUR 100,000 (USD 125,000), as well as paying for portions of Dutch savings lost in the collapse of Icelandic Internet bank Icesave. In keeping with similar actions throughout the EU, the GONL launched a new EUR 200 billion (USD 250 billion) facility to guarantee inter-bank loans, and it expanded the guarantee scheme for loans to Dutch companies. While the financial crisis is taking a toll on the Dutch financial sector, it is weathering the storm thanks to well capitalized institutions and quick government intervention. The crisis has bolstered public opinion of Prime Minister Balkenende,s coalition government, at least temporarily. Given its role as a global financial player, the Netherlands is asking the U.S. for a seat at the table when the G20 meets November 15. End summary.

ING AND AEGON TAKE ADVANTAGE OF EMERGENCY FUND

¶2. (U) Following the United Kingdom,s lead, the GONL announced the creation of a EUR 20 billion (USD 25 billion) emergency fund on October 9 to provide liquidity to financial institutions in need. Finance Minister Wouter Bos and Central Bank President Nout Wellink emphasized that the fund is to protect healthy financial institutions from the shockwaves of the global credit crisis, not to provide emergency bailouts for weak banks. (Note: Per ref A, the GONL already has been forced to conduct one bailout; on October 3, it nationalized all of Belgian-Dutch bank Fortis, Dutch operations) including Fortis, Dutch subsidiary ABN AMRO) to the tune of EUR 16.8 billion (USD 21 billion).

End note.)

¶3. (U) On October 19, the Dutch banking and insurance group ING became the first Dutch company to take advantage of the emergency fund when the GONL announced an injection of EUR 10 billion (USD 12.5 billion) into ING as buffer capital. On October 28, Dutch insurance and pension fund giant AEGON (owner of U.S. insurer Transamerica) became the second company to dip into the fund, accepting 3 billion (USD 3.75 billion) from the GONL. The conditions of the deal are the same for both companies. In return for buffer capital, the GONL will receive preference securities yielding 8.5 percent interest. However, ING and AEGON will only have to pay this interest if they have paid out dividends to common
Qinterest if they have paid out dividends to common shareholders over the previous year. (This protects ING and AEGON from paying interest to the government if they are cash-strapped.) Also, if the companies, dividend yields rise above 8.5 percent (a highly unlikely scenario), then the coupon on the government,s securities will rise as well.

¶4. (U) The government extracted a few key concessions from ING and AEGON. First, the GONL will get two seats on each company,s supervisory board, with veto power over strategic plans and remuneration policy. Second, all of their senior executives will forego 2008 bonuses, and all "golden parachutes" will be capped at one year,s base salary. Third, ING and AEGON can buy out the government,s securities at 150 percent of the issue price, or they can convert them to common shares after three years, which would require shareholder approval.

¶5. (SBU) The presence of toxic U.S. mortgage assets on ING and AEGON,s books and subsequent loss of shareholder confidence remain the primary culprits behind their decisions to accept GONL capital. ING Chairman Michel Tilmant told

Treasury DAS Mark Sobel on September 10 that ING Direct (its U.S. subsidiary) had bought mortgage securities it really did not want. ING announced October 17 that it expected a EUR 500 million (USD 625 million) loss for the third quarter as a result of over EUR 3 billion (USD 3.75 billion) in write-downs. This news triggered ING,s share price to fall 27 percent on October 17 (from EUR 10.11 to 34); by October 28, it was trading at EUR 5.75 (USD 7.18). Meanwhile, AEGON announced October 28 that it expects third quarter earnings to decline 28 percent to approximately EUR 500 million (USD 625 million), with a net quarterly loss of about EUR 350 million (USD 437.5 million) due to &increased import charges and lower financial markets.8 AEGON shares fell over 9 percent October 28 to close at EUR 3.06 (USD 3.82); they have lost 50 percent of their value since October 1.

¶6. (SBU) Comment: ING and AEGON,s decision to dip into the GONL,s emergency fund are very different situations than the GONL,s nationalization of parts of Fortis. Unlike Fortis, which faced severe liquidity shortages, ING and AEGON remain well-capitalized, relatively healthy banks. The main benefits of the capital injection for both institutions are a higher Tier I (or core) capital ratio and no dilution of current shareholders. ING CFO John Hele (who announced October 22 that he will leave ING in March 2009 to become CFO of Arch Capital Group in the U.S.) said that the new capital "gives us time to weather the storm." AEGON CEO Alex Wynaendts noted that the deal will allow AEGON to "enter 2009 with a significantly reinforced capital position." The Dutch Central Bank added that, "with this capital reinforcement, AEGON remains a healthy and well-managed insurance company that has strong buffer capital." These seem fair assessments. Rather than going to the private markets to raise more capital at punitive rates, ING and AEGON opted for a more lenient deal from the GONL and can repay the GONL when they are ready. To put these cases in perspective, they are similar to moves the UK, Germany, and others have taken recently to shore up capital levels at large, solvent banks

such as Barclays HSBC, and Bayern LB. They are also similar to the U.S. Treasury,s moves to acquire limited stakes in U.S. banks. ING and AEGON likely will not be the only Dutch financial institutions to tap into the government,s emergency fund, despite other banks, assurances that they will not avail themselves of the fund. Meanwhile, Rabobank continues to assert that it does not need, and will not request, any capital injection from the GONL. End comment.

OTHER EFFORTS TO SHORE UP FINANCIAL SECTOR

¶7. (SBU) In addition to the EUR 20 billion emergency fund, the GONL has taken several other measures to, in the words of the Central Bank, "safeguard the stability of, and confidence in, the (Dutch) system and to protect the financial enterprises within it." On October 7, the GONL raised the guarantee on individual and small business bank deposits from EUR 38,000 (USD 47,500) to EUR 100,000 (USD 125,000) for a period of one year) double the EUR 50,000 (USD 62,500)
Qperiod of one year) double the EUR 50,000 (USD 62,500)
limit agreed upon by European Union finance ministers on October 8. While Dutch media, members of parliament, and many in the business community applauded the announcement, the Netherlands, largest banks) Rabobank in particular -- expressed concern about having to foot the bill for the new guarantee. Traditionally, any costs of the guarantee are divided among all Dutch banks in proportion to their share of the savings market. Because market leader Rabobank holds roughly 40 percent of Dutch savings accounts, it bears the lion,s share of the burden for any Dutch bank that becomes insolvent. Rabobank announced October 23 that "for the time being" it would refuse to pay for the increase in the GONL guarantee to EUR 100,000. Instead, Rabobank asserted that the GONL should be required to pay for its own decision and use taxpayer money to cover any costs in excess of the original EUR 38,000 guarantee. The GONL estimates that Dutch banks hold a total of EUR 260 billion (USD 325 billion) in domestic savings; it has not offered any estimates of the amount of savings held in foreign branches of Dutch banks.

¶8. (SBU) Some small international banks headquartered in the Netherlands are taking advantage of the GONL,s higher savings guarantee, using it as an advertising tool to attract deposits in other countries. Local financial media have

highlighted small Turkish and Russian banks like AK Bank, Demir-Halk Bank, Garantibank, and Amsterdam Trade Bank as using this tactic. Some in parliament and the Dutch banking community are calling for the GONL to limit the terms of the new guarantee to only local Dutch savings accounts, not accounts at foreign branches of banks that may have their headquarters in Holland, but which do most of their business abroad. Currently, however, the Turkish and Russian banks are within their rights, since GONL policy is that "all Dutch banks that operate under a license from the Dutch National (Central) Bank are covered by the Dutch deposit guarantee scheme."

¶9. (U) To date, the GONL has had to execute the savings guarantee for only one insolvent bank: Icesave. Ironically, although the guarantee applies only to Dutch banks, Icesave is not headquartered in Holland. It is an Internet bank with no storefront locations that is headquartered in Iceland; it is a subsidiary of Landsbanki. The GONL agreed in this case to guarantee savings in a foreign bank because since Icesave opened in May 2008, the high interest rates it offered had attracted 120,000 Dutch clients and a total of EUR 1.6 billion (USD 2 billion) in Dutch savings. When Icesave declared bankruptcy October 8, those Dutch savers looked to the GONL for rescue. The GONL therefore concluded a deal October 12 with the Government of Iceland in which Icelandic authorities will borrow money from the GONL to pay the first EUR 20,877 (USD 26,096) of each Dutch citizen,s Icesave

holdings, and the GONL will pay the remainder up to EUR 100,000 (USD 125,000).

¶10. (U) Meanwhile, the GONL is helping several Dutch municipalities to negotiate a separate deal with the Government of Iceland to recover a total of EUR 225.8 million (USD 282.25 million) that they had deposited in Icesave and other failed Icelandic banks (also to take advantage of the high interest rates). In conjunction with the Ministries of Finance and Home Affairs, the provinces of North Holland, South Holland, Groningen, the Federation of Water Boards, and the Association of Netherlands Municipalities will submit a joint claim to the Government of Iceland to recover their lost savings. The GONL also will examine these bodies, finances for additional sources of exposure and is considering whether to tighten the rules for local authorities, investments in foreign banks.

¶11. (U) In keeping with similar actions throughout the EU, the GONL launched a new EUR 200 billion (USD 250 billion) facility October 23 to guarantee inter-bank loans and loans from institutional investors to banks. Prime Minister Balkenende noted that, while banks could take advantage of the new EUR 20 billion (USD 25 billion) emergency fund to provide liquidity in the short term, the inter-bank loan guarantee was needed to kick start the flow of funds for the medium term. According to the Ministry of Finance, the guarantee scheme targets non-complex senior unsecured loans, "plain vanilla" commercial paper, certificates of deposit, and medium-term notes, with maturities ranging from 3 to 36 months. The GONL will examine a bank,s solvency and liquidity profile when reviewing its application to access Qliquidity profile when reviewing its application to access the facility, and participating banks must agree to additional requirements on corporate governance with respect to bonuses and resignation premiums.

¶12. (U) Minister of Economic Affairs Maria van der Hoeven announced October 21 that her ministry was expanding the guarantee scheme for bank loans to companies. After consulting with company representative and employer organizations, the ministry agreed that companies with up to 250 employees will now be able to call on the credit guarantee scheme; in the past, only companies with up to 100 employees could qualify. The ministry also increased the amount of the guarantee by 50 percent to EUR 1.5 million (USD 1.87 million) per loan, and it doubled the amount available to start-ups from a maximum of EUR 100,000 to EUR 200,000 (USD 250,000). Bernard Wientjes, the president of the employers, organization VNO-NCW, praised van der Hoeven,s decision, adding that his organization also wants the minister to consider a credit facility for larger companies and possibly new investment in the Dutch construction sector.

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ECONOMIC AND POLITICAL IMPLICATIONS OF THE FINANCIAL CRISIS

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¶13. (SBU) The Dutch financial sector, like most in Europe, is suffering from the effects of the global crisis, but it is weathering the storm thanks to well capitalized institutions and quick government intervention. The GONL,s decision to nationalize the Dutch operations of Fortis (including ABN AMRO) has been its most serious market intervention to date. Although ING and AEGON opted to take advantage of the GONL,s emergency fund, they do not appear to be in imminent danger of bankruptcy or nationalization. Dutch banks have significant exposure to U.S.-based assets; the Central Bank reported that at the end of the second quarter of 2008, approximately one-fifth of all Dutch direct and portfolio investments, or EUR 322 billion (USD 402 billion), was in U.S.-based assets. By comparison, Dutch investment in British assets (which rank second on the Dutch foreign investment list) totaled only EUR 195 billion (USD 244

billion). Investor confidence in Dutch institutions remains a key determinant of financial sector health, with reports (and sometimes just rumors) of losses due to write-downs of U.S.-backed assets sending companies, share prices into a tailspin and creating enormous volatility in the Dutch stock market. The Netherlands, AEX index has lost 58 percent of its value since the beginning of 2008, down from 518.27 on January 2 to 214.56 on October 28. ING shares have lost 78 percent of their value over the same period, from EUR 26.74 to EUR 5.75 (USD 7.19). AEGON shares are down 79 percent, from EUR 14.59 to EUR 3.06 (USD 3.82). Fortis shares tell an even bleaker story, down 95 percent from EUR 18.38 to EUR .79 (USD .99).

¶14. (SBU) Comment: While the financial crisis is taking a toll on the Dutch financial sector, it has bolstered public opinion of Prime Minister Balkenende,s coalition government) particularly Finance Minister Wouter Bos. Bos is the hero of the day, having orchestrated most of the government,s interventions, including the nationalization of Fortis, Dutch operations which returned ABN AMRO to Dutch ownership) a source of pride for many Dutch citizens who resented the foreign takeover of a leading Dutch bank in 2007. The government has endured harsh criticism for pushing through policies that it asserts are necessary for the health of the Dutch economy, but which are deeply unpopular with the Dutch public. These include a new aviation tax (ref B) and changes in labor laws and the state pension system. Beginning October 3 with the Fortis nationalization, however, the Dutch public, parliament, and media have reacted favorably to the government,s interventions. The emergency bank fund and array of guarantee schemes are generally viewed as necessary and effective in creating liquidity and shoring up investor confidence. Employer organizations have been supportive of the government,s actions, and labor unions have demanded only moderate wage increases, just enough to keep pace with expected inflation. As the effects of the financial crisis begin to creep into the rest of the Dutch economy, however, the parliament, public, and media will begin asking tough questions about the cost and effectiveness of government Qquestions about the cost and effectiveness of government intervention.

IMPLICATIONS FOR U.S.-DUTCH RELATIONS

¶15. (SBU) Comment continued: The Netherlands and the United States remain staunch defenders of free market principles, despite the necessity of government intervention in their respective financial markets. While some Dutch government and business leaders publicly blame the United States for causing the crisis, most recognize that the interconnectedness of global markets) something which the Dutch fervently support) is responsible for the current domestic turmoil. A notable exception is Finance Minister Bos (also leader of the Labor Party (PdvA) and Deputy Prime Minister), who has been a consistently harsh critic of the United States, repeatedly blaming lack of USG oversight and rampant corporate greed for the crisis.

¶16. (SBU) Comment continued: The Netherlands does not have the international clout or recognition for its quick efforts that it believes it should in this crisis. It is particularly upset by not being invited to participate in the November 15 meeting of the G20. It is pushing hard for a

seat at the table, having senior Dutch officials call their U.S. counterparts (i.e., Bos to Treasury Secretary Paulson; Foreign Minister Verhagen to Secretary Rice). The Dutch argue that they are a global financial player with a tremendous amount at stake in any discussion of restructuring international financial markets. Regardless of Bos, anti-U.S. comments and the question of the G20 invitation, however, the financial crisis is unlikely to damage

U.S.-Dutch relations in the long run. End comment.
CULBERTSON